

Fairfax County Economic Index

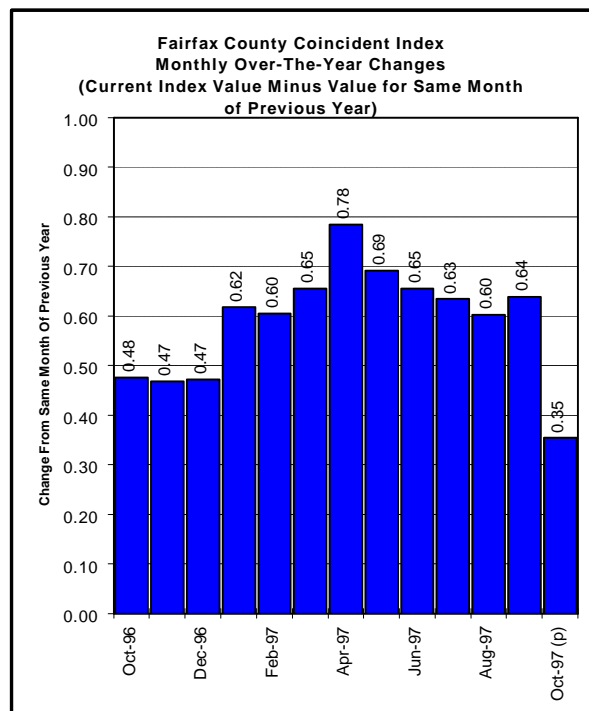
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Economy Slows in October While Future Economic Conditions Appear Strong

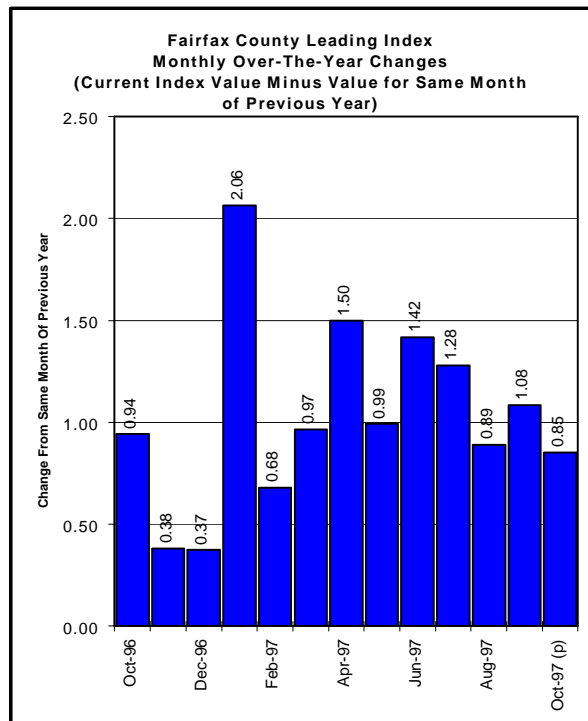
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, slipped in October losing 0.13 percent. While the County's economic performance had slowly moderated over the third quarter, October's decline in the Index was the first negative month since February and only its third decline in the past 12 months. Still, the performance of October's underlying indicators suggest that the economy was actually stronger than shown. For the year, the economy has registered a solid gain of 0.34 percent. In October, two of the Index's four components were negative.

- Transient Occupancy Tax collections were substantially below the norm in what is typically one of the highest occupancy months of the year and may reflect delayed or incomplete processing; and
- Consumer confidence declined for a second month in a row and for the third time in the past four months; while
- Total employment increased for the fourth consecutive month; and
- Sales tax receipts were up, also for the fourth consecutive month.



Source: GMU Center for Regional Analysis.

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy 9 to 12 months in advance, increased 0.32 percent adding to its 0.36 percent increase in September. This two-month increase totally offset the Index's summer decline and it now stands at its highest post-recession level. For



Source: GMU Center for Regional Analysis.

the past 12 months, the Leading Index is up a total of 0.82 percent. In October, three of its five components were positive.

- New automobile registrations gained sharply following declines in August and September;
- Consumer expectations (consumer confidence six months hence) increased for a third consecutive month; and
- Residential building permits registered a strong gain offsetting their decline in September; while
- Initial claims for unemployment insurance increased (worsened) for the third time in the last four months; and
- The mean value of residential building permits declined, also for the third time in the past four months.

CURRENT CONDITIONS

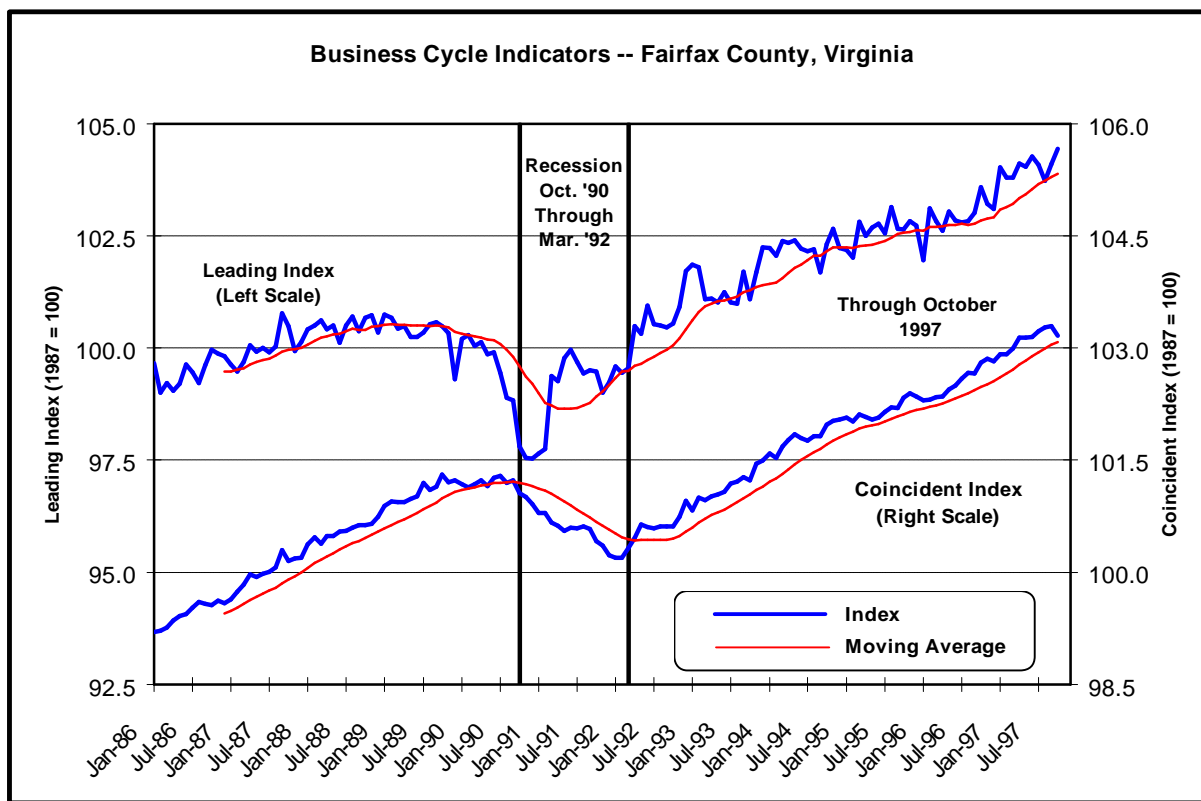
The Fairfax County economy slowed down in October from its rapid growth rate that dates back fifteen months. The early signs of this modest slowdown appeared over the summer with the growing volatility of consumer confidence. Another sign has been the wide monthly swings in the sales of interest-rate sensitive goods—automobiles and housing. This seesaw sales pattern may be reflecting growing uncertainty in the stock market and other national economic conditions.

Still, the primary measure of the County's economic vitality has remained strong and steady; that is, the generation of new jobs. Fairfax County's employment base, on a seasonally adjusted basis, has grown in all but one month during the past year. Overall, the employment base has added an estimated 18,875 net new jobs for an annual gain of 4.32 percent, a rate more than double the job growth rate nationwide. And, this job growth has been achieved even as the labor force has become tighter. October's unemployment rate in the County stood at 2.1 percent compared to 2.9 percent a year ago. This is the County's lowest unemployment rate since the recession and is well under the metropolitan area's rate of 3.4 percent.

These job gains and the low level of unemployment are the result of a strong and vibrant economy. They also represent a constraint to future economic growth as the inability to fill newly created jobs results in lost payroll and consumer spending potential and higher labor and operating costs in the County. These labor force constraints are expected to keep next year's growth rate slightly below the gain achieved in 1997.

NEAR-TERM OUTLOOK

The Fairfax County Leading Index has been pointing to more moderate future economic growth for several months with declines in three of four months during the middle of the year. This



Source: GMU Center for Regional Analysis.

pattern of decline was pointing to slower growth during the first and second quarters of 1998. However, with the Leading Index gaining sharply in both September and October, it appears to be signaling that the County's economic slowdown may be of short duration. The leading indicators have registered similar patterns of sharp reversals in performance previously with the long-term trend continuing its upward path. Since the beginning of 1997, this positive trend has accelerated.

Key indicators of future growth include consumer expectations that provide a measure of future consumer spending plans. October's expectations stood at their highest point since the recession and have gained in three consecutive months in spite of growing financial problems in Asian markets and wide daily swings in U. S. securities markets. The strength of consumer confidence in the future performance of the economy suggests the fundamentals of the expansion are sound.

In Fairfax County, consumer spending has been fueled by strong income growth reflecting both new jobs and payroll and higher productivity. With job growth in 1998 projected to keep close pace with its strong gains in 1997, income growth and consumer spending should also continue to be strong in 1998.

While the outlook remains good, there are several threats that could alter the County's growth path in 1998. Continuing uncertainty and volatility in the world financial and securities markets could undercut consumer confidence and result in reduced consumer spending. And, continued strong national economic growth may force the Federal Reserve Board to raise interest rates in January and possibly again later in the year. Higher interest rates and increased uncertainty would slow consumer and business spending and bring the economy's growth curve down. These are the most obvious threats to continued strong growth in Fairfax County during the first half of 1998.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Oct-97 Prelim.	Sep-97 Final	Oct-96 Final	Sep-97 to Oct-97	Oct-96 to Oct-97
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	103.16	103.29	102.81	-0.13	0.34
Leading Index (1987 = 100)	104.43	104.09	103.58	0.32	0.82
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	456,224	452,751	437,349	0.77	4.32
<i>Total Covered Employment (Unadjusted)</i>	<i>454,814</i>	<i>454,045</i>	<i>435,998</i>	<i>0.17</i>	<i>4.32</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	226.9	281.8	256.0	-19.47	-11.39
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>359.0</i>	<i>411.5</i>	<i>394.3</i>	<i>-12.78</i>	<i>-8.96</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,884.5	7,192.3	6,910.5	9.62	14.09
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>9,041.0</i>	<i>9,064.2</i>	<i>7,936.7</i>	<i>-0.26</i>	<i>13.91</i>
South Atlantic Consumer Confidence	164.0	165.4	144.2	-0.85	13.73
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,158	4,576	6,394	34.57	-3.69
<i>Automobile Registrations (Unadjusted)</i>	<i>5,926</i>	<i>5,204</i>	<i>6,153</i>	<i>13.87</i>	<i>-3.69</i>
Initial Unemployment Claims (Seasonally Adjusted)	943	786	1,015	19.96	-7.07
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>867</i>	<i>658</i>	<i>933</i>	<i>31.76</i>	<i>-7.07</i>
South Atlantic Consumer Expectations	116.7	116.4	108.6	0.26	7.46
Residential Building Permits (Number of Units, Seasonally Adjusted)	465	263	398	76.85	16.90
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>505</i>	<i>282</i>	<i>432</i>	<i>79.08</i>	<i>16.90</i>
Average Residential Building Permit Value (\$='87 Per Unit, Seasonally Adjusted)	77,267	86,719	79,485	-10.90	-2.79
<i>Average Residential Building Permit Value (\$=Current Per Unit, Unadjusted)</i>	<i>101,563</i>	<i>110,330</i>	<i>103,774</i>	<i>-7.95</i>	<i>-2.13</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	534,457	535,130	504,565	-0.13	5.92
<i>Total Labor Force (Unadjusted)</i>	<i>529,786</i>	<i>531,277</i>	<i>500,155</i>	<i>-0.28</i>	<i>5.92</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.04	2.27	2.73	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>2.05</i>	<i>2.45</i>	<i>2.74</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Average Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:

www.co.fairfax.va.us/comm/economic/economic.htm